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5 February 1965

DCI BRIEFING
FOR THE HOUSE APPROPRIATIONS COMMITTEE

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BRAZIL

- I. The government of President Castello Branco continues to exert moderate, effective leadership and to make gradual progress toward restoring economic stability.
 - A. Although serious political and economic problems persist, Castello Branco has thus far succeeded in preventing them from becoming serious threats to stability.
 - B. He enjoys public confidence and the support of the armed forces and has gained congressional approval of much-needed legislation.
 - C. Castello Branco's term expires in March 1967 with national elections scheduled for November 1966.
- II. The government plans to seek passage of a basic political reform law that would result in a more representative electoral system and a reduction in the number of major parties from the present unmanageable number of 13 to three or four.

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III. Under the two-year (1964-66) economic austerity program the regime has had some success in curbing the rampant inflation inherited from the Goulart and earlier regimes.

- A. The inflation rate in 1964 was held to 87 percent, well below the 140 percent expected had Goulart remained in power.
- B. A further substantial reduction in the inflation rate is likely in 1965, although the government's goal of 25 percent may be overly optimistic.
- C. Measures have been taken to strengthen the tax system and reduce federal spending at all levels.
- D. External economic assistance in 1965 will approach \$1 billion with the US providing approximately half of this amount.
- D. This year's harvest of coffee and other major crops promises to be among the largest in Brazilian history.

IV. A comprehensive agrarian reform program has been enacted along with major reforms in housing, education, banking, and other fields.

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V. President Castello Branco is expected to succeed in maintaining stability during the foreseeable future but his administration faces pressures from several sectors.

- A. The persistent rise in cost of living is creating public unrest particularly among urban labor.
- B. Although the government's emergency power to investigate subversion and corruption has expired, Castello Branco remains under some pressure from civilian and military "hardliners" to carry out additional purges.
- C. The regime has effectively reduced the threat of subversion but potential threats to stability remain.
 - 1. Extreme leftists such as Leonel Brizola and other exiles continue plotting.
 - 2. The Communist Party, which had been thrown into disarray by the revolution of last April, is regrouping and beginning to reassert its influence, particularly in labor and among students.

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3. As the campaign for next year's presidential election gains momentum it will tend to have disruptive political effects; a leading contender, conservative Governor Carlos Lacerda, already has begun to arouse antagonisms by his attacks on administration policies.